

DRAFT

4 May 1955

Dear Sam:

Enclosed herewith for your review is a basic contract form, with Schedule, Appendix I, and Exhibit I formats.

In view of the uncertainty introduced by the increased prices in your quote of April 25, 1955, the Price Redetermination clause has not been completed in the Schedule. On the basis of this quote we cannot agree to an incentive type redetermination clause and suggest for your consideration the use of a Form III or Form IV clause with the establishment of a reasonable maximum price in the case of the Form III, or the establishment of an agreeable target price in the case of the Form IV with provision for upward escalation in the event of unforeseen contingencies.

Appendix I cannot, of course, be completed at the present time since the over-all scope of work to be included in the contract is not settled.

Your quote of April 25, 1955, with inclusion of items (G & A, profit, project coordination services, and incentive features) attributable to your administration of the subcontract at a total expense to us in an amount much greater than we deem appropriate very strongly suggests the possibility, if not necessity, for our contracting separately with you for your phase of the work and separately with the subcontractor for his phase of the work. In such event we would consider the inclusion in your phase of the work of a cost item (or fixed sum) for your providing coordination of the technical activities of the two contracts, if such services are required. We would handle the administrative aspects of both contracts ourselves.

Again with reference to any revision you may contemplate with respect to your most recent quote we should like to have the following items set forth individually rather than lumped with other categories:

- a. Labor
- b. Overhead applicable to labor (rate or rates and amount)
- c. Material (and purchased components)
- d. Tooling
- e. Subcontracts - (may include sub's labor, material, overhead, profit, etc. - Subcontracts here does not include purchase orders for material)
- f. Consulting services
- g. Other
- h. G & A and selling expense (indicate percentage for each)
- i. Profit

With respect to your overhead, G & A and selling expense accounts we should like to have your most recent Department of Defense determinations in this regard in the detail which is customary for review of these items.

I would appreciate your views on the above comments and on the appropriateness of the attached form to serve as a contractual mechanism for a separate contract for your work alone or for the combined phases of work. Another possibility is a cost type contract for your phase of the work, provided a mutually agreeable estimated cost and fixed fee can be

negotiated. Perhaps we can exchange views by phone on the possibilities before arrangements of our next meeting so that such meeting may be conclusive as to the final negotiations. In any event, a completely revised proposal clarifying the entire cost aspects of your April 25, 1955 proposal appears appropriate before additional time and effort is expended on another meeting.

Very truly yours,

Geo.